Directorate of Intelligence

~~Secret~~

25X1

Eastern Europe: Financial Situation and Outlook in 1983-84

25X1

An Intelligence Assessment

~~Secret~~

EUR 84-10151
August 1984

Copy 418

Sanitized Copy Approved for Release 2011/01/27 : CIA-RDP85S00316R000200080005-7

Page Denied

Directorate of
Intelligence

Secret
[redacted] 25X1

Eastern Europe: Financial Situation and Outlook in 1983-84 [redacted] 25X1

An Intelligence Assessment

This paper was prepared by [redacted] Office of European Analysis. Comments and queries are welcome and may be directed to the Chief, East-West Regional Branch, EURA [redacted] 25X1 25X1

Secret
EUR 84-10151
August 1984

Sanitized Copy Approved for Release 2011/01/27 : CIA-RDP85S00316R000200080005-7

25X1

Eastern Europe: Financial Situation and Outlook in 1983-84

25X1

Key Judgments

Information available as of 16 July 1984 was used in this report.

Eastern Europe is recovering from its severe financial crisis. Last year the region posted its second consecutive hard currency trade surplus and its first current account surplus in more than a decade. Bulgaria, Czechoslovakia, East Germany, and Romania cut their net hard currency debt by an average of 13 percent, and the region as a whole built up foreign exchange reserves by 22 percent.

Much of the improvement stemmed from continued belt tightening. Imports declined for the third consecutive year, albeit not as dramatically as during the previous two years. Eastern Europe's financial position also was helped by loans from the IMF and the World Bank, rescheduling agreements with private and official creditors, and some revival of commercial lending for the more creditworthy countries.

The pace of improvement seems to be quickening in 1984. Excluding Poland, Eastern Europe's financing requirements will decline by about 15 percent this year. Prospects for new credits seem better than at any time in the last four years. While most of the upswing in lending consists of short-term, trade-related credits, Hungary and East Germany have already raised medium-term syndications. East Germany also has received a large government-backed loan from West Germany for the second consecutive year. Yugoslavia has arranged refinancing with private and official creditors, and Romania probably will avoid a rescheduling for the first time in three years.

Despite its recovery from the 1981-82 crisis, most of Eastern Europe still faces long-term trade and financial problems:
- Even with additional reschedulings, Poland almost certainly will be unable to close its financial gap, and the regime seems unwilling to impose the tough adjustment measures needed to restore creditworthiness.
- Yugoslavia's financing requirements are declining, but it will still need more debt relief in the next few years.
- The drastic import cuts imposed by Romania have drained the economy, and the possibility of a Romanian rescheduling in 1985 cannot be excluded.
- The financial recoveries of East Germany and Hungary seem more solid, but both countries must continue to cover large financing requirements.
- All of the countries of Eastern Europe will be additionally burdened by growing pressures from the Soviet Union to balance bilateral trade and provide Moscow with better quality goods.

25X1

A number of economic and political factors still weigh against Eastern Europe in the risk assessments of Western lenders. To resume economic growth and maintain external balance, Eastern Europe must do more to improve its export performance. Many creditors regard the sharp import reductions of the past few years as a short-run expedient with little impact on long-term creditworthiness. Many bankers, still skeptical that the East Europeans will do much to correct fundamental problems, will be examining more closely than in the past the economic policy and performance of individual countries. Creditor confidence also could be undermined by further cooling in the East-West political climate or outbreaks of unrest.

25X1

Sanitized Copy Approved for Release 2011/01/27 : CIA-RDP85S00316R000200080005-7

[redacted]

25X1

Contents

 25X1

Eastern Europe: Financial Situation and Outlook in 1983-84

25X1

Regional Overview

Performance in 1983

Eastern Europe's financial position began to improve in 1983 following the severe difficulties of the previous two years. The region posted a hard currency trade surplus of $4.4 billion, more than double the surplus of 1982 and a sharp reversal of the $3.7 billion deficit recorded in 1981 (see table 1). The region pared hard currency imports by about 4.7 percent last year, a much less severe cutback than the 15-percent reductions in both 1981 and 1982. The first increase in exports since 1980—due largely to resales of Middle Eastern oil—helped limit import reductions. The trade surplus, along with lower interest payments, helped produce a $2.2 billion current account surplus for the region, compared with the $1.9 billion deficit of a year earlier.

Current account surpluses helped most countries reduce their net hard currency debt for the second consecutive year (see table 2).[1] Foreign exchange reserves grew by 22 percent regionwide, offsetting the precipitous drop that occurred in 1982 at the height of the credit crunch. Thus, Bulgaria, Czechoslovakia, East Germany, and Romania cut their net debt by an average of 13 percent. Net debt increased for the other three countries because of Poland's climbing interest arrearages to Western official creditors and some new credits received by Hungary and Yugoslavia.

Eastern Europe's financial position was helped by support from international institutions and by generally improved relations with Western creditors. Loans from the IMF and the World Bank encouraged Western bankers to provide nearly $500 million in syndicated loans to Hungary. A $400 million government-guaranteed bank loan from West Germany helped revive lending to East Germany. East Germany and Hungary, which together had suffered a nearly $4 billion loss in bank credit lines between December 1981 and June 1983, according to BIS statistics, increased total borrowings by $500 million during the last half of 1983. In contrast with 1982, Romania quickly negotiated rescheduling agreements with Western banks and governments. Negotiations proved difficult for Poland and Yugoslavia, but both countries eventually obtained favorable rescheduling terms from Western banks. Yugoslavia also secured a package of new credits from the banks, Western governments, the IMF, and the World Bank.

25X1

Improvements in Eastern Europe's hard currency balances were even more impressive given the economic pressures applied by the Soviet Union. The terms of trade continued to move in Moscow's favor last year, forcing the East Europeans to export a greater volume of goods to the Soviet Union just to maintain existing import volumes. In addition, Moscow apparently stepped up its pressure on some of its Warsaw Pact allies to improve their bilateral trade balances after a decade of allowing them to run large deficits. Last year Eastern Europe's trade deficit with Moscow declined by $500 million, with the largest cuts made by East Germany, Poland, and Bulgaria.

25X1

25X1

Improvement Continues in 1984

The momentum generated by Eastern Europe in 1983 appears to be carrying over to 1984. Excluding Poland, Eastern Europe's financing requirements will drop an estimated 15 percent this year. The increase in reserves and the reduction in short-term debt have improved the liquidity position of most countries. Debt service ratios have improved for all countries except Poland and Yugoslavia due to a decline in scheduled debt repayments (see table 3).

25X1

25X1

Prospects for new borrowing seem better than at any time in the last four years. Eastern Europe's standing with bankers appears to be rising because of trade and current account surpluses. Hungary and East Germany raised medium-term syndications in the first half of 1984 and may return to the market later this year.

[1] Some of the debt reduction was only nominal, reflecting the depreciation of the nondollar component of the debt against the dollar, and did not represent an acutal liquidation of obligations.

25X1

Table 1
Eastern Europe: Hard Currency Trade

Million US $

	1979	1980	1981	1982	1983	1984 [a]
Exports						
Total	**33,896**	**38,830**	**37,387**	**36,438**	**37,404**	**39,975**
Bulgaria	2,335	3,021	3,198	3,298	2,879	2,900
Czechoslovakia	3,734	4,597	4,691	4,357	4,142	4,275
East Germany	5,098	6,565	6,714	7,172	7,625	8,000
Hungary	4,063	4,911	4,877	4,876	4,847	5,000
Poland	6,350	7,506	4,971	4,974	5,402	6,200
Romania	5,522	6,574	7,216	6,235	6,238	6,600
Yugoslavia	6,794	5,656	5,720	5,526	6,271	7,000
Imports						
Total	**45,556**	**47,302**	**41,065**	**34,695**	**33,047**	**35,550**
Bulgaria	1,621	2,035	2,546	2,684	2,415	2,500
Czechoslovakia	4,117	4,590	4,432	3,842	3,371	3,500
East Germany	6,908	8,145	6,654	5,663	6,300	7,050
Hungary	4,230	4,632	4,417	4,111	3,970	4,100
Poland	8,038	8,488	5,404	4,616	4,317	4,900
Romania	6,623	8,091	7,012	4,710	4,605	4,800
Yugoslavia	14,019	11,321	10,600	9,069	8,069	8,700
Balance						
Total	**−11,660**	**−8,472**	**−3,678**	**1,743**	**4,357**	**4,425**
Bulgaria	714	986	652	614	464	400
Czechoslovakia	−383	7	259	515	771	775
East Germany	−1,810	−1,580	60	1,509	1,325	950
Hungary	−167	279	460	765	877	900
Poland	−1,688	−982	−433	358	1,085	1,300
Romania	−1,101	−1,517	204	1,525	1,633	1,800
Yugoslavia	−7,225	−5,665	−4,880	−3,543	−1,798	−1,700

[a] Projections based upon announced trade plans.

[redacted] 25X1

Because of continuing unease about the financial outlook for many LDCs, bankers seem to be looking for profitable opportunities to lend to those East European countries that have weathered the debt crisis. [redacted]

Bankers, nonetheless, remain cautious and are limiting most lending to short-term, trade-related credits carrying higher interest spreads than in the past. Private lenders are reluctant to increase exposure significantly unless backed by Western government guarantees. The East Europeans seem equally cautious about new borrowing, with some regimes deliberately planning to run current account surpluses to reduce debts further. Most of the medium-term, untied money secured this year will be in the form of IMF loans for Hungary and Yugoslavia; the completed or planned commercial syndications generally are tied to trade and project financing. Because the inflow of credits probably will be small, we expect the region again to run a sizable trade surplus of roughly $4.4 billion and a current account surplus of $3.4 billion. [redacted]

25X1

25X1

Table 2
Eastern Europe: Gross and Net Hard Currency Debt at Yearend

Million US $

	1980	1981	1982	1983 [a]
Eastern Europe				
Gross debt	83,645	85,085	80,658	81,975
Commercial debt	61,658	59,050	53,031	48,041
Government-backed debt	18,688	21,152	21,133	26,380
IMF/IBRD/BIS	3,299	4,471	6,081	7,154
CEMA banks	NA	412	413	400
Reserves [b]	10,054	9,838	8,239	10,065
Net debt	73,591	75,247	72,419	71,910
Bulgaria				
Gross debt	3,536	3,065	2,757	2,463
Commercial debt	3,201	2,695	2,292	1,968
Government-backed debt	335	370	465	495
Reserves [b]	779	840	1,014	1,076
Net debt	2,757	2,225	1,743	1,387
Czechoslovakia				
Gross debt	4,926	4,508	4,053	3,707
Commercial debt	4,066	3,703	3,118	2,732
Government-backed debt	860	805	935	975
Reserves [b]	1,256	1,105	742	985
Net debt	3,670	3,403	3,311	2,722
East Germany				
Gross debt	14,098	14,863	13,039	12,630
Commercial debt	11,253	11,583	9,489	8,510
Government-backed debt	2,845	3,280	3,550	4,120
Reserves [b]	2,506	2,596	2,321	3,597
Net debt	11,592	12,267	10,718	9,033
Hungary				
Gross debt	9,090	8,699	7,715	8,250
Commercial debt	8,790	8,334	6,955	6,940
Government-backed debt	300	365	525	740
IMF/IBRD/BIS			235	570
Reserves [b]	2,090	1,652	1,151	1,518
Net debt	7,000	7,047	6,564	6,732
Poland				
Gross debt	25,000	25,453	24,840	26,400
Commercial debt	14,900	14,188	13,660	10,900
Government-backed debt	10,100	11,265	11,180	15,500
Reserves [b]	650	775	1,045	1,150
Net debt	24,350	24,678	23,795	25,250

Table 2
Eastern Europe: Gross and Net Hard Currency Debt at Yearend (continued)

Million US $

	1980	1981	1982	1983 [a]
Romania				
Gross debt	9,387	10,160	9,766	9,000
Commercial debt	6,537	6,167	5,409	4,900
Government-backed debt	1,670	1,845	1,428	900
IMF/IBRD/BIS	1,180	1,736	2,516	2,800
CEMA banks	NA	412	413	400
Reserves [b]	300	345	370	250
Net debt	9,087	9,815	9,396	8,750
Yugoslavia				
Gross debt	17,608	18,337	18,488	19,525
Commercial debt	12,911	12,380	12,108	12,091
Government-backed debt	2,578	3,222	3,050	3,650
IMF/IBRD	2,119	2,735	3,330	3,784
Reserves [b]	2,473	2,252	1,596	1,489
Net debt	15,135	15,812	16,892	18,036

[a] Preliminary estimate.
[b] Excludes gold holdings. Changes in reserves shown may not equal those in the country balance-of-payments tables because of fluctuations in gold stocks and differing definitions of reserves.

[redacted] 25X1

Trade turnover with the West—exports plus imports—will pick up for the first time since 1980. Economic recovery in the West will increase East European exports, which—coupled with moderately more financing—will allow most regimes to ease import curbs. Even so, hard currency trade is unlikely to increase at the double-digit pace common in the 1970s. Hard currency sales probably will increase by around 7 percent while import growth should approach 8 percent. [redacted]

Long-Term Problems

Despite its relatively quick recovery from the 1981-82 credit crunch, Eastern Europe still faces long-term trade and financial problems. The East Europeans cannot continue to rely on import restraints to achieve trade and current account surpluses; strong export gains are imperative if the region is to attain economic growth and external balance. The regimes, however, have done little to correct longstanding problems with competitiveness, and the sizable cuts in imports of Western capital goods are widening the technology gap between Eastern Europe and the developed West.

Growing Soviet demands for more and better goods from Eastern Europe also may limit the region's ability to sell in hard currency markets. Financial problems in developing countries not only have hurt East European sales to those countries, but also have made the Third World a more aggressive competitor in developed country markets. [redacted] 25X1

25X1

Even with the recent debt reductions, debt service obligations will remain large for most countries, and increases in international interest rates will further burden current account performance. The reluctance of lenders to increase their medium- and long-term exposure will leave Eastern Europe vulnerable to rapid reductions in short-term credit lines as occurred in early 1982. The breathing space given by debt reschedulings for Poland, Romania, and Yugoslavia will expire in the next few years, forcing these countries to repay their obligations, refinance them with new loans, or negotiate new rescheduling terms. [redacted] 25X1

Table 3
Eastern Europe: Selected Financial Indicators

Percent

	Proportion of Bank Loans With Less Bank Loans With Less Than One Year Maturity					Reserves as a Share of Debt Maturing in One Year				
	1979 [a]	1980 [a]	1981 [a]	1982 [a]	1983 [b]	1979 [a]	1980 [a]	1981 [a]	1982 [a]	1983 [c]
Eastern Europe	**39.9**	**36.3**	**37.0**	**34.0**	**33.6**	**28.8**	**29.0**	**28.1**	**23.1**	**27.0**
Bulgaria	41.1	36.3	48.1	51.7	52.8	31.0	53.5	59.4	90.1	123.2
Czechoslovakia	47.1	43.1	37.6	31.2	32.8	46.8	65.3	67.8	55.8	95.6
East Germany	42.7	38.6	42.6	39.0	38.8	46.7	45.2	42.3	48.2	68.6
Hungary	47.4	42.9	40.4	33.2	36.0	27.2	34.0	25.0	29.0	31.7
Poland	39.1	33.1	36.1	32.8	29.3	14.7	7.5	9.7	9.0	7.2
Romania	50.5	42.7	35.3	38.9	32.8	9.6	9.4	8.9	9.5	16.7
Yugoslavia [e]	22.6	28.1	28.4	26.7	30.0	46.3	36.9	38.3	18.0	23.8
	Undisbursed Bank Commitments as a Share of Outstanding Debt					Debt Service Ratios [d]				
Eastern Europe	**16.5**	**17.4**	**11.7**	**8.4**	**7.5**	**36.7**	**39.9**	**48.7**	**56.7**	**61.0**
Bulgaria	8.4	16.7	24.5	15.5	18.3	33.7	32.5	33.9	26.9	22.1
Czechoslovakia	9.7	8.3	6.7	10.4	9.7	20.6	21.8	20.1	19.4	17.8
East Germany	16.5	15.2	16.2	13.3	11.1	44.6	43.9	51.6	53.2	45.9
Hungary	5.2	8.4	4.6	7.2	5.5	33.1	30.9	32.7	33.0	30.7
Poland	24.6	23.9	11.8	4.8	4.3	86.0	97.1	174.6 [f]	214.6 [f]	245.7 [f]
Romania	18.3	18.2	9.4	9.8	9.0	21.1	25.6	27.4	45.3	31.5
Yugoslavia	23.8	19.0	11.9	7.5	6.7	20.2	22.8	26.4	28.4	33.8

[a] At yearend.
[b] At midyear.
[c] Preliminary estimate at yearend.
[d] Repayments of medium- and long-term debt and interest payments on gross debt as a share of current account earnings.
[e] Reserves held by the National Bank of Yugoslavia.
[f] Ratio computed on the basis of obligations owed which were much larger than amounts actually paid.

[redacted] 25X1

The warming of relations between Western lenders and several East European countries will likely be limited. The debt crisis of 1981-82 has changed bankers' long-term thinking about Eastern Europe. The banks can no longer point to Eastern Europe's financial conservatism and unblemished payments record, and they have learned that they cannot trust in Soviet financial support as adequate protection for lending to the region. Instead of making blanket judgments about the area's creditworthiness, bankers are likely to draw sharper distinctions among the countries on the basis of economic policy, performance, and prospects. [redacted] 25X1

As a prerequisite for increased lending, bankers will likely look for evidence that the East Europeans are making structural changes to improve trade performance. Many creditors regard sharp import reductions as a short-run expedient with little positive impact on long-term creditworthiness. Some bankers consider the Western recession as only one factor in the disappointing export performance in recent years, and they remain skeptical that the East Europeans will or can do much to correct their fundamental problems. [redacted] 25X1

Political developments, as in the past, could again influence borrowing prospects. Any further cooling in the East-West political climate or outbreaks of unrest or violence could undermine creditor confidence. Threats to political stability could result from popular reaction to the pinch of austerity measures or from struggles over succession. Political problems in any one country could spill over and poison lenders' attitudes about the whole region, even though some countries—such as Czechoslovakia and Bulgaria—may be judged creditworthy solely on economic terms.

25X1

Individual Country Performance

The following sections summarize the recent financial performance of the individual countries and discuss their longer term prospects

25X1

Poland

Warsaw continued last year to pursue a policy of limited adjustment by running a trade surplus large enough to meet the minimum demands of its creditors but not so great as to strain the beleaguered economy and risk unrest. Warsaw ran a record trade surplus of $1.1 billion as exports jumped 9 percent and imports fell 6 percent. Nonetheless, this surplus, coupled with other service earnings of $400 million (net), fell far short of the $3.3 billion owed in interest (see table 4). As a result, Warsaw slipped even further behind in meeting its debt repayments.

25X1

New credits and debt relief from banks covered little more than $2 billion of Warsaw's $15 billion financing requirement, which included almost $7 billion in arrears from 1982. Credit availability continued to decline as lines extended before 1982 were nearly exhausted. Warsaw was able to draw only $565 million in new money—about half in trade credits from Libya and China—plus $338 million in trade credits available from the 1982 and 1983 bank rescheduling agreements. Western banks agreed to reschedule $1.2 billion in principal—95 percent of the payments due in 1983—until 1988-92. The banks agreed to relend 65 percent of the interest due on original loan contracts as short-term credits to finance imports for Warsaw's export industries.

25X1

Table 4 *Million US $*
Poland: Financing Requirements and Sources, 1982-84

	1982	1983 [a]	1984 [b]
Financing requirements	**10,788**	**14,592**	**15,805**
Current account balance	−3,039	−1,807	−760
Trade account balance	358	1,085	1,300
Exports	4,974	5,402	6,200
Imports	4,616	4,317	4,900
Interest [c]	−3,799	−3,299	−2,560
Other net invisibles, (excluding interest)	402	407	500
Repayments of medium- and long-term debt due	7,061	5,447	4,045
Paris Club creditors	2,573	1,825	1,808
Banks	2,442 [d]	1,436 [d]	619
Other creditors	2,046	2,286	1,618
Repayments of short-term debt due	110	263	0
Arrearages from previous year	573	6,906	10,800 [e]
Net credit extended	−5	−69	−200
Financing sources	**3,882**	**2,103**	**7,900**
Credits	1,670	903	600
Debt relief	2,050 [f]	1,200	7,300
Other	162	0	0
Arrears/gap	**6,906**	**12,489**	**7,905**

[a] Preliminary.
[b] Projection.
[c] Amounts are for interest due rather than interest paid. Because Poland has not paid all interest due, the figures for interest and the current account deficits overstate the hard currency outflows.
[d] Includes principal payments deferred until the following year under the bank rescheduling agreements for 1981 and 1982.
[e] Arrearages at the end of 1983 according to Polish data. The total is not consistent with the $12.5 billion total we compute from data and estimates of current account performance, obligations due, payments made, new credits and reschedulings.
[f] Includes interest deferred until 1983 under the 1982 bank agreement.

25X1

Poland's large financial gap resulted primarily from failure to conclude a debt rescheduling with the Paris Club. Western government creditors, who had suspended debt rescheduling talks in January 1982 following Warsaw's imposition of martial law, agreed in

25X1

principle in mid-1983 to negotiate debt relief and sent a technical team to Poland. The opportunity for progress was lost in November, however, when Polish officials made their first appearance at the Paris Club in two years and asked for a comprehensive package including generous debt relief, new credits, and IMF membership. The creditors responded that IMF membership and new credits were outside the scope of the Paris Club, and that further debt relief could not be provided until Poland met unpaid obligations under the 1981 rescheduling agreement.

The trends of the past two years—some improvement in the current account, dwindling credit availability, and difficult rescheduling negotiations—are being repeated in 1984. Poland owes about $16 billion this year, two-thirds of which represents payments overdue from as long ago as 1981. The current account deficit could fall below $800 million as interest payments drop to around $2.6 billion and if Warsaw achieves another record trade surplus as anticipated. Exports and imports are projected to increase by 20 percent and 14 percent, respectively. First-quarter statistics suggest that the projected $1.3 billion trade surplus is reachable.

The likelihood of new credits remains slim. Polish officials hope for over $2 billion in new credits this year, but they have acknowledged that they received only $90 million in the first quarter. Warsaw is more likely to receive around $600-800 million this year, including new money coming out of rescheduling agreements.

After three years of rescheduling, roughly three-fourths of Warsaw's debt to Western banks has now been rescheduled. About $600 million in principal is due this year, well below the levels of the past two years. This relatively small sum encouraged the banks to negotiate a multiyear rescheduling on the following terms:

- Rescheduling over 10 years of 95 percent of principal payments due from 1984 through 1987, including a grace period of five years.
- An interest rate of 1.75 percentage points over LIBOR on rescheduled obligations.
- Payment in 1984 of the remaining 5 percent of principal, a 1-percent fee, and interest due this year on all of the debt to be rescheduled.

The banks also agreed to extend about $700 million in short-term credit facilities over the next two years. Embassy reporting indicates that $330 million will be new credits. Each bank will contribute an amount based on its exposure, with approximately $230 million to be made available this year. The remaining $370 million is an extension on repayment of trade credits from the 1982 agreement, which come due in 1985. The rescheduling was contingent on Poland paying off some $100 million in interest arrearages. 25X1

25X1 25X1

The accord was signed on 13 July. The scheduled signing was threatened at the last moment when the Poles insisted that all banks accept the new money portion of the agreement. They eventually agreed to less than 100-percent approval. 25X1

Progress with the Paris Club has been slowed by Warsaw's delays in meeting the creditors' conditions for resuming debt relief negotiations. Warsaw initially agreed to pay all creditors 20 percent of the arrearages under the 1981 Paris Club rescheduling agreement as well as all of the unrescheduled debt due the United States in 1981. The money was due at the end of May, but many creditors have reported receiving only partial payments. In addition, Warsaw now maintains that it will pay only 20 percent of $34 million in unrescheduled principal and interest due under the 1981 bilateral agreement with the United States. In early July, the Polish delegation informed creditors that payments could not be met because of lack of funds. The regime in Warsaw apparently has set aside a fixed amount for debt repayments, and this limit cannot be exceeded. The delegation repeated its request that new financing was needed to meet debt obligations. A working group of the Paris Club has scheduled its next meeting for September and only then if the payments problem has been resolved. 25X1

25X1 25X1

Even if it eventually completes reschedulings with commercial banks and the Paris Club and obtains some new credits, Poland will still face a financial gap of nearly $8 billion this year. This includes $2.7

25X1

Table 5
Romania: Financing Requirements and Sources, 1982-84

Million US $

	1982	1983 [a]	1984 [b]
Financing requirements	**3,820**	**1,998**	**710**
Current account balance	655	902	1,000
Trade account balance	1,525	1,633	1,800
Exports	6,235	6,238	6,600
Imports	−4,710	−4,605	−4,800
Net interest	−917	−725	−730
Other services	47	−6	−70
Debt repayments	2,830	2,219	1,528
Medium-and long-term	2,081	1,263	1,190
Short-term	749	956	338
Net credits extended	−502	−293	−182
Arrears from previous year	1,143	388	0
Financing sources	**3,316**	**1,876**	**755**
Credits	1,591	1,056	560
Medium- and long-term	334	586	220
Short-term	956	338	300
IMF, net	301	132	40
Debt relief	1,700	749	0
Change in reserves	−25	−71	−195
Errors and omissions	**116**	**122**	**−45**
Financing gap/arrears	388	0	0

[a] Preliminary.
[b] Projected.

billion due Paris Club creditors in 1984 under original loan contracts and obligations owed to individual companies, LDCs, and CEMA banks. Moreover, Warsaw would be burdened with resuming payments to governments after two and a half years of self-imposed debt relief.

Despite four years of debt reschedulings, Warsaw still faces unmanageable financing requirements in 1985 and beyond. Not only will further reschedulings be necessary, creditors almost certainly will have to renegotiate agreements already concluded. 25X1

Romania
In narrow financial terms, Romania's turnaround has been the greatest in Eastern Europe and one of the most dramatic among all problem debtors. Bucharest has run sizable surpluses in its hard currency accounts the past two years in contrast to the large deficits recorded between 1977 and 1981. The current account surplus climbed to over $900 million in 1983—up from $655 million a year earlier (see table 5). These gains stem almost entirely from tight import curbs that enabled Bucharest to run trade surpluses in both years exceeding $1.5 billion. The current account surplus in 1983 allowed Romania to reduce its net hard currency debt by nearly $650 million from the 1982 level of $9.4 billion. 25X1

Despite the improved current account, debt relief from Western banks and governments was needed again in 1983. Bucharest's rescheduling efforts proceeded more smoothly than the 1982 negotiations. As early as February 1983, Romania and major Western banks had agreed on terms, albeit tougher than those of 1982: only 70 percent of some $900 million in principal payments to banks were rescheduled instead of the 80 percent in 1982, and short-term debt was not covered. The Paris Club agreed to reschedule 60 percent of principal due in 1983 on medium- and long-term guaranteed credits. 25X1

Romania so far has made good on its goal of avoiding a rescheduling this year. This is largely due to a projected hard currency trade surplus of $1.8 billion—assuming growth of about 4 percent in both exports and imports—and lower debt service obligations. But to keep current on meeting bank repayments, Romania is squeezing foreign suppliers, 25X1 25X1 Romania has delayed payments on imports and pressed suppliers to accept either countertrade deals or discounted repayments in cash. 25X1 25X1

25X1

25X1

In addition, Romania must cope with the cancellation of the final drawings of its 1981 IMF standby arrangement (worth nearly $300 million). Romania and the Fund agreed to end the standby credit because Bucharest refused to raise energy prices further and complete some studies requested by the Fund. According to press reports, the Romanians will not request a new standby arrangement.

Romania's financial progress has been costly and may be short lived. The huge trade surpluses—primarily the result of a 42-percent drop in imports in 1981-82—have drained the economy and damaged the outlook for genuine recovery. Investment fell over 10 percent in 1981-82, and the officially acknowledged drop in consumption in 1982 was the first decline since World War II. In addition, industrial production growth has averaged a little over 1 percent the last three years, which is the slowest growth in the postwar era.

The breathing space associated with rescheduling ends in 1985 when Bucharest must begin to repay obligations rescheduled in 1981. Total repayments of medium- and long-term debt, including IMF repurchases, are scheduled to climb to almost $1.7 billion. The Ceausescu regime most likely will respond to the pressure of covering its external obligations by continuing to earn large trade surpluses rather than deal with underlying economic problems that hurt competitiveness and prevent sustainable and balanced growth.

Hungary

Hungary's financial position improved in 1983 even though Budapest failed to meet all its goals. The borrowing campaign fared reasonably well, bringing in roughly $1.3 billion in medium-term loans (see table 6). In addition to $352 million in IMF credits, Budapest obtained a $200 million three-year club loan from Western banks, $239 million in project credits from the World Bank, a $275 million commercial loan to cofinance World Bank projects, and increased trade credits. A surge in short-term borrowings late in the year helped boost gold and foreign exchange reserves by $600 million. The major disappointment was that the trade surplus reached only $877 million and the current account surplus only $297 million.

Table 6
Hungary: Financing Requirements and Sources, 1982-84

Million US $

	1982	1983 [a]	1984 [b]
Financing requirements	**4,208**	**3,048**	**3,351**
Current account balance	−63	297	400
Trade balance	766	877	900
Exports	4,876	4,847	5,000
Imports	4,110	3,970	4,100
Net interest	−976	−662	−580
Other net invisibles	147	82	80
Repayment of medium- and long-term debt	894	1,216	1,534
Repayment of short-term debt	2,849	1,764	2,123
Net credits extended	−192	−65	−94
Repayment of BIS credit	210	300	0
Financing sources	**4,244**	**3,151**	**3,251**
Credits	3,663	3,751	3,240
Medium- and long-term	1,154	1,276	1,100
Short-term	1,764	2,123	1,700
IMF, net	235	352	440
BIS	510	0	0
Change in reserves	−581	600	11
Errors and omissions	**−36**	**−103**	**100**

[a] Preliminary.
[b] Projected.

25X1

25X1

25X1

25X1

Overly buoyant domestic demand bears some of the blame, but depressed export prices and a substandard grain harvest also kept export gains well below the original goal.

25X1

Unlike other East European countries, Hungary is again counting heavily on medium-term bank loans to cover much of its 1984 financing requirement. Budapest faces $1.5 billion in medium- and long-term debt repayments—up from $1.2 billion in 1983—and its IMF stabilization program calls for a reduction in short-term debt to limit vulnerability to the type of liquidity crisis that occurred in 1982. While total debt

repayments thus are $800 million more than last year, Budapest plans to increase its current account surplus to only $400 million. Hungary is obtaining some $440 million in standby credits from the IMF, but it will need more than $1 billion in medium- and long-term commercial financing to prevent erosion of its reserves.

This year's borrowing campaign is off to a good start and should meet the $1.1 billion target. A $150 million bankers' acceptance was oversubscribed—eventually reaching $210 million—and an Arab consortium drummed up $50 million. The World Bank has approved another $200 million in project loans; commercial cofinancing loans for these projects will likely reach $450 million. Budapest may seek another syndication toward the end of the year to help offset any shortfall in the current account and to buttress foreign exchange reserves. Foreign exchange holdings dropped around $400 million in the first quarter of 1984 as Budapest reduced its short-term debt in compliance with the IMF program.

Early indicators for trade and current account performance seem favorable. Despite the lifting of some import restrictions, the hard currency trade surplus increased to $213 million in the first quarter of 1984 from $150 million in the same period of last year. The current account was in balance in contrast to last year's first-quarter deficit, indicating that the goal of a $400 million surplus for the year remains attainable. The Hungarians, nonetheless, must record substantial increases in exports since they have removed more import restraints in accordance with their IMF stabilization program. Sustained export gains are uncertain because they depend significantly on the outcome of this year's harvest.

The success of Hungary's foreign borrowing effort has led many observers to conclude that the country is close to financial recovery. Hungary's bankers exude increased confidence and insist that a debt rescheduling would only increase borrowing costs and yield little relief in managing medium- and long-term debt.

This optimism, however, tends to obscure important challenges facing Hungary's economic and financial managers. Budapest must cover large debt repayments in the next two years, $1.5 billion in 1985 and $1.2 billion in 1986. Improvements in the economy's efficiency and competitiveness are needed to increase the trade surplus. Budapest—with prodding from the IMF—is working out a new package of structural reforms to be introduced in 1986 for the purpose of improving trade performance. Hungary's experience shows, however, that the payoff from reform is not quick. Trade prospects also depend on the willingness of Hungary's CEMA trade partners, in particular the USSR, to allow Budapest to continue running large surpluses in intra-CEMA hard currency trade. In recent years, Hungary has relied on these surpluses to offset deficits in trade with the developed West, and Budapest is concerned that the Soviets will not want to continue this practice. None of these problems foreshadow an imminent financial crisis, but Hungary's position will remain vulnerable for the next several years.

25X1

25X1

Yugoslavia

Belgrade's creditors recognized by early 1983 that the country could not meet its debt obligations. The IMF, which was shepherding Yugoslavia through the last year of a three-year stabilization program, pressed Western governments and banks to adopt a rescue plan for 1983 that would refinance maturing medium- and long-term credits, halt the erosion of short-term debt, and ensure enough new credits to rebuild Yugoslavia's depleted reserves. The IMF hoped—at least initially—that the refinancing package, coupled with improvement in Yugoslavia's current account, would produce a strong enough revival in commercial lending so that Yugoslavia would not require more help in 1984. The plan eventually grew into a complicated package involving new credits and refinancing:

25X1

- Western governments pledged nearly $1.2 billion in export credits, financial loans, and rollovers of maturing officially backed loans.
- Western banks refinanced $1.0 billion in medium-term loans for six years with a three-year grace period, kept in place $900 million in short-term credits, and extended $600 million of new untied loans.
- Net funding from the IMF—involving the last drawings from the 1981 standby credits—and the World Bank amounted to nearly $700 million.
- The Bank for International Settlements contributed $500 million in short-term bridge loans.

25X1

25X1

25X1

Yugoslavia achieved a major improvement in its trade and current accounts in 1983 (see table 7). Belgrade cut its trade deficit from $3.5 billion in 1982 to $1.8 billion in 1983 as a result of an upturn in exports and sharp cuts in imports. The delayed disbursement of credits in the refinancing package contributed to the reduction in imports, but the improvement in trade performance also resulted from the large devaluation of the dinar demanded by the IMF and Yugoslavia's success in redirecting exports from CEMA to convertible currency markets. Because of the reduced trade deficit and a revival of tourism earnings, Yugoslavia moved its current account balance from a $1.6 billion deficit in 1982 to a $300 million surplus in 1983. 25X1

Despite the 1983 refinancing package and improved current account, Yugoslavia is seeking more debt relief in 1984. Belgrade faces an estimated $3.6 billion financing requirement, including $2.7 billion in repayments on medium- and long-term debt. The IMF projects a current account surplus of only $500 million for this year, leaving a large amount of maturing loans to roll over. Belgrade is not yet able to resume normal borrowing on its own, and its official foreign exchange reserves, which dropped $55 million last year to under $1 billion, give little scope for helping to cover the financial gap. Indeed, in the IMF's view, the reserves need to be increased by $500 million while the Yugoslavs would like to increase them by over $800 million. 25X1

Belgrade is making progress toward covering this year's financing requirement. First-quarter current account results indicate that the IMF's projection of a $500 million surplus for the year is attainable. Resolution of a dispute with the IMF over pricing policies has permitted renewed disbursement of this year's $400 million standby credit. More important, settlement of this problem paves the way for completion of refinancing packages linked to the new IMF program:

- Private bankers have agreed to refinance $1.3 billion in debts falling due this year.
- Western governments are deferring about $800 million in maturing credits and carrying over nearly $400 million in unused credits from last year's package.

Table 7
Yugoslavia: Financing Requirements and Sources, 1982-84

Million US $

	1982	1983 [a]	1984 [b]
Financing requirements	**5,855**	**4,031**	**3,585**
Current account balance	−1,602	299	500
Trade account balance	−3,543	−1,798	−1,700
Exports	5,526	6,271	7,000
Imports	9,069	8,069	8,700
Net interest	−1,692	−1,489	−1,550
Other services, net	1,970	1,976	1,650
Remittances, net	1,663	1,610	2,300
Repayments of medium- and long-term debt	1,764	2,363	2,745
Repayments of short-term debt [c]	2,312	1,810	1,140
Net credits extended	−177	− 157	−200
Financing sources	**5,325**	**4,125**	**3,585**
Credits	4,314	4,070	4,095
Medium- and long-term	1,815		250
Short-term	1,810		900
IMF, net	563	410	10
IBRD	125	280	505
Rescue packages		2,340	2,430
Governments		790	1,190
Berne		790	390
Geneva		0	800
Banks		1,550	1,240
Other lenders		60	
Suppliers		980	
Change in reserves	−1,012	−55	510
Errors and omissions	**530**	**−94**	**0**

[a] Preliminary.
[b] Projected.
[c] Includes net change in outstanding supplier credits.

25X1

In addition, Belgrade is counting on over $500 million in World Bank loans and about $250 million in medium- and long-term loans from other sources. Finally, last year's refinancing agreement commits banks to maintain some $900 million in short-term credit lines. [redacted]

Yugoslavia almost certainly will require additional—albeit smaller—refinancing packages after 1984. Even with increasing current account surpluses, Yugoslavia will have larger borrowing needs than it can cover in the market and will require additional debt relief. Repayments of medium- and long-term debt are around $2.5 billion annually in 1985-86. [redacted]

[redacted]

Belgrade [redacted] would like to avoid further Paris Club refinancings. But such a move could upset bankers who are concerned that all creditors should be treated equally. Some bankers still harbor ill feelings about the 1983 rescue package. They feel private banks were treated unfairly since they were required to put up new money, some of which was then used to pay off government creditors. [redacted]

The Yugoslavs apparently are approaching further debt relief with one eye on Latin American debtors, according to the Embassy. Belgrade is monitoring closely Latin America's efforts to obtain debt relief, and Yugoslav officials have stressed increasingly the common difficulties shared by Third World debtors. We do not believe Belgrade is interested in joining a debtors' cartel as it wishes to keep current on its financial obligations and eventually resume normal borrowing. But Belgrade would argue that its financial record should entitle it to more favorable terms should this occur in Latin American reschedulings. [redacted]

Financial recovery ultimately depends on Belgrade's ability to regain the confidence of Western bankers by attacking systemic problems that contribute to the imbalance between supply and demand and encourage reliance on Western imports. To date, Belgrade's administrative controls and the IMF's prescribed 25X1
tight monetary policy have not slowed inflation. Belgrade will have to work harder to restrain increases in wages, prices, and domestic credit and to improve efficiency and competitiveness through systemic reform. This would involve abandoning policies that have given primacy to regional interests over integrative market forces. In addition, policies that misallocate investment resources have been used to protect 25X1
jobs by shoring up money-losing enterprises and to subordinate efficiency to political objectives. An efficient national foreign exchange market also is needed to ensure that all producers pay the true cost of foreign exchange and that those best able to use foreign resources receive hard currency. [redacted] 25X1

25X1

Despite professions of good intentions from officials and some steps in the right direction, Belgrade's capacity to overhaul its economy remains suspect. Needed adjustment policies and structural reforms 25X1
may impose a higher price than society is willing to pay. The population is already grumbling about falling living standards, and resistance could intensify as consumption levels decline further. Differences among regions and nationalities further complicate the collective leadership's task of reaching a consensus on burden sharing policy. At the same time, a greater reliance on market forces challenges official ideology 25X1
and threatens the prerogatives of powerful vested interests in the republics. Moreover, repeated disputes over the IMF stabilization program do little to inspire creditor confidence. [redacted] 25X1

East Germany

East Germany's financial position strengthened considerably in 1983 due to another current account surplus, increased short-term trade financing, and special financial credits from West Germany, as well as new government-backed trade loans from other Western countries. Although faced with total debt repayments of more than $4 billion, the East Germans

25X1

Table 8
East Germany: Financing Requirements and Sources, 1982-84

Million US $

	1982	1983 [a]	1984 [b]
Financing requirements	**4,081**	**2,935**	**2,610**
Current account balance	1,239	1,310	1,080
Trade account balance	1,509	1,325	950
Exports	7,172	7,625	8,000
Imports	5,663	6,300	7,050
Net interest	−1,220	−865	−820
Other net invisibles	950	850	950
Repayments of medium- and long-term debt	3,000	2,790	2,300
Repayments of short-term debt	2,320	1,430	1,390
Financing sources			
Credits	3,865	2,344	NA
Medium- and long-term	2,130	2,230	NA
Short-term	1,460	1,390	NA
Change in reserves	**−275**	**1,276**	NA
Net errors and omissions	**216**	**566**	NA

[a] Preliminary.
[b] Projected.
[c] Includes net change in supplier credits.

met their obligations, reduced their gross debt to Western banks by $400 million, and built up reserves by an estimated $1.3 billion to a record $3.6 billion (see table 8). In contrast to 1982, the regime was able both to run a current account surplus and increase imports from the West.

East Germany's trade surplus fell slightly, to $1.3 billion, in 1983 as a result of an 11-percent increase in imports and only a 6-percent gain in exports.[2] The current account surplus remained around the $1.3 billion level. The East Germans continued to maximize cash receipts by reselling for hard currency oil, silver, and other commodities obtained through barter arrangements with LDCs and on clearing account from West Germany. 25X1

As in 1982, East Germany pursued a differentiated trade policy between West Germany and the other OECD countries in order to make maximum use of available import financing and to build up a convertible currency surplus. Capitalizing on West German trade credit facilities, East Germany boosted imports from West Germany by more than 30 percent during the first half of 1983 over the same period of 1982 and increased its net short-term debt to West Germany by roughly $300 million. During the same period, the East Germans ran a $300 million surplus with the rest of the OECD. The pattern shifted in the second half of the year when more credits became available from other Western sources. East Berlin ran a $250 million surplus in intra-German trade through a slowdown in imports and a boost in exports and paid back most of the increase in indebtedness to West Germany. While moving into surplus with West Germany, the East 25X1
Germans ran a surplus of only $60 million with the rest of the OECD. 25X1

In addition to trade financing, West Germany helped ease East Germany's liquidity problems by granting a $400 million government-guaranteed financial credit with a five-year maturity. Unlike other intra-German credits, this loan was in convertible currency and not tied to trade; thus, East Berlin could use the proceeds to cover debt service payments to non-German creditors. 25X1
By demonstrating West Germany's financial umbrella, the loan apparently encouraged Western bankers to revive lending to East Berlin and helped improve the terms East Germany could obtain on new credits. 25X1

Even though the likelihood of an East German rescheduling has diminished, the country will face financial pressures over the next few years. Repayments of medium- and long-term debt in 1984-85 will fall from the 1982-83 level, but at more than $2 billion annually they will remain substantial. The

[2] A persistent problem in analyzing East German trade performance is the discrepancy between totals announced by East Berlin and by Western partners. East Germany, for example, reports that its exports to nonsocialist countries rose 24 percent in 1982 and imports rose 13 percent. OECD and intra-German trade data, however, show East German exports rising 4 percent and imports falling by 10 percent. This discrepancy may be explained by different statistical procedures, the lack of LDC partner data, and failure to count East German commodity resales in Western statistics. We use East German data to compute the overall trade balance, but rely on Western sources to estimate trends in exports and imports.

25X1

East Germans must also roll over a large short-term debt. We expect smaller hard currency trade surpluses than in the past two years because East Berlin seems intent on expanding imports. Increased hard currency service receipts from West Germany will help offset some of the impact of smaller trade surpluses on the current account. [redacted] 25X1

The East Germans have been actively seeking more trade financing and have been particularly anxious to raise additional medium-term credits—including syndicated loans—in order to refurbish their credit rating and to stretch out the maturity structure of their debt. East Germany's foreign trade bank succeeded in raising a $75 million credit in the Euromarkets in May. While not large, the credit represents East Germany's first medium-term untied loan since late 1981 and may open the door to more such lending. In late July, West German banks extended a new $330 million untied loan guaranteed by the West German Government [redacted] 25X1

Given recent improvements in East Germany's financial position, there is no pressing need for the new West German money. But the loan demonstrates the continuation of the West German financial umbrella and reduces doubts held by many creditors. They remain wary about East Germany, especially because of the lack of basic economic and financial data. For example, much uncertainty surrounds East Germany's recent reserve buildup. Some Western observers argue that the buildup has been funded by increased borrowing from outside the BIS area, and hence East German debt has not fallen as much as BIS statistics indicate. Lacking credible statistics on East Germany's trade and current account performance and on future debt service, many bankers count on continued West German financial support to offset the information gap. [redacted]

East Berlin's decision to revive imports and to press Western bankers and governments for new loans shows that East German planners still see trade with the West as an important element of their economic strategy. The regime probably will hold to a more cautious borrowing strategy than in the late 1970s, but East Germany probably will be more aggressive than Bulgaria and Czechoslovakia in seeking new loans to increase imports. Nonetheless, East Germany can no longer rely on its strategy of the 1970s that attained rapid economic growth and improvements in living standards through large resource transfers from the West. [redacted] 25X1

Table 9 *Million US $*
Czechoslovakia: Financing Requirements and Sources, 1982-84

	1982	1983 [a]	1984 [b]
Financing requirements	**1,365**	**664**	**590**
Current account balance	195	581	605
Trade account balance	515	771	775
Exports	4,357	4,142	4,275
Imports	3,842	3,371	3,500
Net interest	−380	−260	−250
Other net invisibles	60	70	80
Repayments of medium- and long-term debt [c]	320	435	405
Repayments of short-term debt	1,240	810	790
Financing sources	**1,468**	**607**	NA
Credits	1,105	850	NA
Medium- and long-term	355	100	NA
Short-term	750	750	NA
Change in reserves	−363	243	NA
Net errors and omissions	**−103**	**−57**	NA

[a] Preliminary.
[b] Projected.
[c] Includes estimated net change in supplier credits.

[redacted] 25X1

Czechoslovakia
In 1983 Czechoslovakia maintained its cautious policy toward hard currency imports and reduced its net debt for the second consecutive year. The foreign trade plan envisioned a modest increase in both hard currency exports and imports. But a 5-percent decline in sales prompted Prague to cut imports by nearly 9 percent in order to meet its financial targets. These reductions resulted in trade and current account surpluses of $771 million and $581 million, respectively, both up from their 1982 levels (see table 9). [redacted] 25X1

25X1

Czechoslovakia seems to face few borrowing problems, and its liquidity has improved. The Czechoslovaks used part of their current account surplus last year to add more than $240 million to reserves in Western banks. To demonstrate its increased creditworthiness, Prague raised a $50 million medium-term club loan from Western banks in mid-1983. Prague's senior banker described the small credit as a "symbolic question of getting back on the Euromarkets" after the 1981-82 credit squeeze. The Czechoslovaks apparently balked at emulating Hungary's example of disclosing more information on their debt and balance of payments in return for a larger loan. [redacted]

There appears to be some uncertainty about the future direction of Czechoslovakia's financial policy. In early 1984, Prague announced that it plans to pay off its debt to Western banks. [redacted] Czechoslovakia's net debt to banks at $1.8 billion and [redacted] intends to pay off $600 million annually, about equal to the decline shown in BIS statistics for 1983. This seemed to reflect the leadership's frequently voiced concern that external debt provides the West with a tool for political and economic leverage. [redacted] Prague now has scaled back its plan for debt reduction and will permit some increase in imports of Western capital goods. [redacted]

The regime may have softened its stance against foreign borrowing in response to criticism from both Western bankers and Czechoslovak planners about its reluctance to modernize industry through greater Western imports. Prague's long-held financial conservatism has contributed to the technological decline of Czechoslovakia's industry and the stagnation of the economy. Even with economic recovery in the West, inherent weaknesses undermine export performance, permitting little if any growth in real imports. Some Czechoslovak economists have been arguing that a judiciously planned pickup in investment—using borrowed Western resources—could help modernize key industrial sectors and jolt the economy out of its doldrums. Although the leadership may now be giving more credence to these arguments, fear of the political consequences of reliance on Western credits will probably continue to dissuade the Husak regime from adopting an aggressive strategy on Western imports and borrowing. [redacted]

Bulgaria

Sofia's relatively low debt and lack of dependence on the West paid off during Eastern Europe's credit crunch. Creditors seemed less anxious to reduce their exposure to Bulgaria than to the rest of Eastern Europe. Although bank claims dropped somewhat, the decline probably reflected Sofia's policies as much as banks' efforts to reduce exposure. Not only was the bank pullout less severe for Bulgaria, but also the country faced minimal financing requirements as its low debt and comfortable maturity structure resulted in small repayments. [redacted] 25X1

Bulgaria—along with Czechoslovakia—remains in the strongest financial position of any East European country. Several consecutive years of current account surpluses have enabled Sofia to cut its gross debt to about $2.5 billion at the end of 1983 and to build up reserves of $1.1 billion, enough to cover over five months' worth of imports. Creditors continue to give high marks to Sofia's financial conservatism. [redacted] 25X1 25X1 25X1 25X1

Bulgaria's financial strength allows it a range of options in managing its hard currency accounts. It could maintain its policy of holding down imports and reducing its debt even further. Or Sofia could use the cushion provided by the conservatism of recent years to pursue an expansion of hard currency imports. Some reports have suggested that Bulgaria was considering the latter option as Sofia was interested in negotiating contracts for Western equipment and technology needed to modernize its industry. [redacted] 25X1 25X1 25X1 25X1 25X1

Trade performance in 1983, however, shows that Sofia still chose to limit hard currency imports in order to maintain healthy trade and current account surpluses (see table 10). Imports from nonsocialist countries were down 10 percent from the 1982 level. The decision to reduce imports probably was driven by the 13-percent drop in exports to the West. Sales were off significantly to Iran, Iraq, and Libya, which rank among Sofia's largest hard currency trading partners. Bulgaria ended the year with a trade surplus of $464 million, down $150 million from a year earlier. The current account surplus was $624 million, compared to $669 million in 1982. [redacted] 25X1

25X1

Table 10
Bulgaria: Financing Requirements and Sources, 1982-84

Million US $

	1982	1983 [a]	1984 [b]
Financing requirements	**811**	**816**	**650**
Current account balance	669	624	600
Trade account balance	614	464	400
Exports	3,298	2,879	2,900
Imports	2,684	2,415	2,500
Net interest	−215	−130	−120
Other net invisibles	270	290	320
Repayments of medium- and long-term debt	640	510	490
Repayments of short-term debt [c]	840	930	760
Financing sources	**996**	**1,083**	NA
Credits	1,170	1,145	NA
Medium- and long-term	270	385	NA
Short-term	900	760	NA
Change in reserves	174	62	NA
Net errors and omissions	**−185**	**−267**	NA

[a] Preliminary.
[b] Projected.
[c] Includes net change in outstanding supplier credits.

[redacted] 25X1

Exports must recover if Bulgaria is to meet its plans for modest expansion of trade with the West. Sofia, however, cannot count on large export gains because Bulgaria is not very competitive in developed country markets and must rely on Third World customers who are struggling with debt problems. If it chose to do so, Sofia probably could finance a larger volume of imports because of its good standing with bankers.

[redacted] 25X1

[redacted] The regime, however, probably will keep a close eye on its balance-of-payments performance and will not allow a repetition of the comparatively large deficits that occurred in the mid-1970s. [redacted] 25X1 25X1